

EXHIBIT J

Department of Health & Human Services
Centers for Medicare & Medicaid Services
7500 Security Boulevard
Baltimore, MD 21244-1850



Draft

Item #22-26

Ms. Vivianne Chaumont
Director
Office of Medical Assistance
Department of Health Care Policy & Financing
1575 Sherman - 10th Floor
Denver, CO 80203-1714

Dear Ms. Chaumont:

We have reviewed Colorado's State Plan Amendment (SPA) 02-011, received in the Regional Office on June 27, 2002. The amendment will modify the estimated acquisition cost for prescription drugs, increasing the discount to AWP less 14% for brand name drugs and AWP less 45% for generics. The amendment also allows rural pharmacies (any pharmacy that is the only Medicaid serving pharmacy within a twenty-five mile radius) to submit invoices to Medicaid for the difference in the above prices and AWP minus 12%. You have requested an effective date of July 1, 2002.

We are unable to approve your proposed amendment as it was submitted. Therefore, we are requesting additional information pursuant to Section 1915(f) of the Social Security Act (the Act). In order to continue processing this SPA, we will need the following questions addressed in writing: questions:

1. Although the basis for the discount was the recent OIG report that examined drug prices in Colorado, the percentages you propose differ from those in the OIG report. Therefore, please provide documentation to explain the rationale for requesting a discount below AWP for brand name and generic drugs that was not specifically referenced in the OIG report.
2. Please describe the impact on Medicaid beneficiaries' access to pharmacy services as a result of this change.
3. Please provide documentation to explain the payment distinction made between rural pharmacies and urban pharmacies.

In accordance with Section 1915(f)(2) of the Act, a state plan amendment must be approved, denied or additional information requested within 90 days of receipt or the request will be granted. The 90th day of consideration for this amendment is September 25, 2002. There are concerns regarding the justification provided by the state for this amendment.

In accordance with our guidelines to the State Medicaid Directors dated January 2, 2001, we request that you provide a formal response to this request for additional information no later than December 23, 2002. If we have not received a response by that date, we will conclude that the state has not established the proposed SPA as being consistent with all statutory and regulatory requirements. Therefore, we will initiate disapproval action on the amendment. In addition, please be advised that

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we will continue to defer Federal financial participation (FFP) for State payments made in accordance with the amendment until it is approved. Upon approval, FFP will be available for the period beginning with the effective date through the date of actual approval.

If you have any further questions, please contact Christina Lyon at Clyon@cms.hhs.gov, (410) 786-3332.

Sincerely,

Larry Reed
Co-Director
Pharmacy Team

cc: Spencer Ericson,
Associate Regional Administrator (Acting)
Denver Regional Office

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